

# AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

|  |                                    |   |                   |
|--|------------------------------------|---|-------------------|
| Local Government Type:<br><input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other |                                    | Local Government Name:<br>City of Bloomfield Hills              | County<br>Oakland |
| Audit Date<br>June 30, 2004  | Opinion Date<br>September 16, 2005 | Date Accountant Report Submitted To State:<br>December 21, 2005 |                   |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

| We have enclosed the following:                                     | Enclosed                            | To Be Forwarded          | Not Required                        |
|---|-------------------------------------|--------------------------|-------------------------------------|
| The letter of comments and recommendations.                         | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/>            |
| Reports on individual federal assistance programs (program audits). | <input type="checkbox"/>            | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| Single Audit Reports (ASLGU).                                       | <input type="checkbox"/>            | <input type="checkbox"/> | <input checked="" type="checkbox"/> |

|  |                    |             |              |
|--|--------------------|-------------|--------------|
| Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b> |                    |             |              |
| Street Address<br>27400 Northwestern Highway                             | City<br>Southfield | State<br>MI | ZIP<br>48037 |
| Accountant Signature<br><br><i>Plante &amp; Moran, PLLC</i>              |                    |             |              |

# **City of Bloomfield Hills, Michigan**

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**Financial Report  
with Supplemental Information  
June 30, 2005**

# City of Bloomfield Hills, Michigan

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## Independent Auditor's Report

To the City Commission  
City of Bloomfield Hills, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Bloomfield Hills, Michigan as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Bloomfield Hills, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Bloomfield Hills, Michigan as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.



A worldwide association of independent accounting firms

To the City Commission  
City of Bloomfield Hills, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Bloomfield Hills, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

September 16, 2005

# **City of Bloomfield Hills, Michigan**

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## **Management's Discussion and Analysis**

Our discussion and analysis of the City of Bloomfield Hills, Michigan's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the City's financial statements.

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide general information about the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

### **Government-wide Financial Statements**

The government-wide statements provide information about the City as a whole, using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the City's assets and liabilities. Net assets, the difference between the City's assets and liabilities, are one way to measure the City's overall financial health. The statement of activities reflects all of the current year's revenues and expenses, regardless of when cash is actually received or paid.

All of the City's basic services are included in governmental activities such as police, fire, public works, and general administration, all of which are accounted for through the General Fund. Property taxes, state-shared revenues, charges for services, licenses and permits, and other revenues comprise the revenue for the governmental activities. Also included as governmental activities are Major and Local Streets Funds, General Obligation Debt Fund, Budget Stabilization Fund, Drug Enforcement Fund, and Water and Sewer Construction Fund.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the City's significant funds, not the City as a whole. Funds are accounting tools that the City uses to keep track of specific sources of revenues and expenditures for particular purposes. Some funds are required by state law and bonding requirements. Other funds are established to control and manage money for particular purposes.

# City of Bloomfield Hills, Michigan

## Management's Discussion and Analysis (Continued)

The City has the following fund type:

**Governmental Funds** - All of the City's basic services are included in governmental funds, which focus on how cash and other financial assets that can be converted to cash, flow in and out; and the balance left at year end that is available for spending. The governmental fund statements provide a detailed short-term view that helps the reader determine if there are more or fewer financial resources available to spend in the near future to finance the City's programs. In the annual financial statements, we refer to our funds as the General Fund, General Obligation Debt Fund, Water and Sewer Construction Fund, and other nonmajor governmental funds.

### Financial Highlights

The following represents the most significant financial highlights for the year ended June 30, 2005:

- State-shared revenue reductions have been in the forefront of interest in making budget predictions over the past few years. State-shared revenues currently provide the City with \$290,213, a reduction of \$3,544 as compared with fiscal year 2004. This continues the four-year trend of reduced revenue sharing.
- Property tax and related revenues increased from \$5,779,938, to \$6,546,571, or 13.26 percent, as compared to fiscal year 2005. This increase is due to an increase in the operating mill from 7.5 mills in fiscal year 2004 to 8.3 mills in fiscal year 2005 and also an increase in the taxable value of the City.
- Interest income increased from \$38,957 in fiscal year 2004 to \$111,957 in fiscal year 2005, an increase of 187 percent. This increase is due to more cash made available to invest and the increase in interest rates received from different investments in which the City participates.
- Overall, General Fund revenues for fiscal year 2005 were \$483,792 above the original and amended budgets.

# City of Bloomfield Hills, Michigan

## Management's Discussion and Analysis (Continued)

### The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year (in millions of dollars):

|  | Governmental Activities |                |
|--|-------------------------|----------------|
|  | 2005                    | 2004           |
| <b>Assets</b>                                    |                         |                |
| Current assets                                   | \$ 5.1                  | \$ 3.3         |
| Noncurrent assets                                | <u>14.1</u>             | <u>14.9</u>    |
| Total assets                                     | 19.2                    | 18.2           |
| <b>Liabilities</b>                               |                         |                |
| Current liabilities                              | 0.3                     | 0.3            |
| Long-term liabilities                            | <u>6.2</u>              | <u>7.2</u>     |
| Total liabilities                                | <u>6.5</u>              | <u>7.5</u>     |
| <b>Net Assets</b>                                |                         |                |
| Invested in capital assets - Net of related debt | 8.3                     | 8.2            |
| Restricted                                       | 1.5                     | 0.6            |
| Unrestricted                                     | <u>2.9</u>              | <u>1.9</u>     |
| Total net assets                                 | <u>\$ 12.7</u>          | <u>\$ 10.7</u> |



# City of Bloomfield Hills, Michigan

## Management's Discussion and Analysis (Continued)

The City's combined net assets are \$12.7 million as compared to \$10.7 million for the prior year. This represents a 19 percent increase.

The bottom of the table shows the changes in net assets during the current year. As this is the second year of implementation for the revised reporting format, comparative data is supplied in this report.

The following table shows the changes in the net assets during the current year and in the prior year (in millions of dollars):

|                                    | Governmental Activities |               |
|------------------------------------|-------------------------|---------------|
|                                    | 2005                    | 2004          |
| <b>Revenue</b>                     |                         |               |
| Program revenue:                   |                         |               |
| Charges for services               | \$ 0.9                  | \$ 1.0        |
| Operating grants and contributions | 0.3                     | 0.3           |
| Capital grants and contributions   | 0.5                     | -             |
| General revenue:                   |                         |               |
| Property taxes                     | 6.5                     | 5.8           |
| State-shared revenue               | 0.3                     | 0.3           |
| Unrestricted investment earnings   | 0.1                     | -             |
| Franchise fees                     | 0.1                     | 0.1           |
| Miscellaneous                      | 0.2                     | 0.2           |
| Loss on sale of assets             | -                       | (0.1)         |
| Total revenue                      | 8.9                     | 7.6           |
| <b>Program Expenses</b>            |                         |               |
| General government                 | 1.6                     | 1.8           |
| Public safety                      | 3.8                     | 4.0           |
| Public works                       | 1.3                     | 1.2           |
| Interest on long-term debt         | 0.2                     | 0.3           |
| Total program expenses             | 6.9                     | 7.3           |
| <b>Change in Net Assets</b>        | <b>\$ 2.0</b>           | <b>\$ 0.3</b> |

# **City of Bloomfield Hills, Michigan**

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## **Management's Discussion and Analysis (Continued)**

### **Governmental Activities**

As you read through the next several paragraphs, it is important to remember that governmental activities not only include the General Fund, but also the General Obligation Debt Fund, the Water and Sewer Construction Fund, and other nonmajor governmental funds accounts.

The City's governmental revenues totaled \$8.9 million, with the largest revenue source being property taxes. Property taxes represent \$6.5 million of total governmental revenues, which is approximately 70 percent of total governmental revenues. This percentage of total revenues has been relatively consistent over the past several fiscal years.

During fiscal year 2005, the City received capital charge revenue of \$.5 million. This revenue will be set aside in the Water and Sewer Construction Fund and will be used to fund future improvements to the water and sewer lines infrastructure.

The other revenues category is a listing of many other smaller revenue sources. Reimbursement from Tri-party sources for a construction project makes up the largest part of the other revenues and is one-time revenue this year.

The Major and Local Streets Funds revenue totals \$.3 million and reflects Act 51 funds for our major and local streets. Act 51 funding has been fairly stable over the past three fiscal years. We are unaware of any significant changes at the state level that will negatively affect this revenue in the near future.

Typical to other communities in the area, a heavy reliance on property taxes continues to impact our budget projections. Over recent years, the City's reliance on unrealized double-digit valuation increases, coupled with the limitations on property tax growth due to Proposal A, does not fare well for our future revenue projections.

From an overall perspective, the City continues to remain in good financial standing. The budgetary reductions implemented as a part of the 2003-2004 budget impacted the overall operation of the City departments.

# **City of Bloomfield Hills, Michigan**

## **Management's Discussion and Analysis (Continued)**

### **Capital Assets and Debt Administration**

At the end of fiscal year 2005, the City has \$14.1 million invested in a wide range of capital assets, including land, buildings, equipment, roads, and water and sewer lines.

Debt of \$2.0 million is related to the debt service on storm system and sewer projects (including Evergreen-Farmington, Bloomfield Village CSO, and City of Bloomfield Hills CSO) mainly from the late 1980s, with debts retiring at staggered intervals between 2009 and 2117; \$3.7 million relates to the Building Authority bonds originating in 1998, maturing in 2008, with \$37,800 owing on the 2003 installment purchase of a dump truck; that debt matures in 2007. The City is expected to take on further debt in the upcoming year with the purchase of a new dump truck and street sweeper.

### **General Fund Budgetary Highlights**

Over the course of the fiscal year, the City administration and City Commission monitor and, if necessary, amend the budget to prevent expenditures in excess of budget as required by the State of Michigan Budget Act.

It has been the City's history of monitoring the revenue and expenditures reports on a monthly basis to track the unfolding of each fiscal year. Expenditures have been allowed to grow provided that the revenues are available to support them. This approach has benefited the City from many different perspectives. It has allowed us to rebuild our financial position, pay for one-time large scale projects with cash, and provided the opportunity for the retooling of our operations.

### **Economic Factors and the Future**

There are several economic factors that will continue to challenge the City. These include state revenue sharing, health insurance, pension costs, our overall millage rate, and state laws limiting the growth in property taxes. The 1978 Headlee Amendment and Proposal A passed in 1993 both limit growth to the rate of inflation. Headlee requires a rollback in the overall millage rate if total property values grow at a rate higher than inflation, and Proposal A limits increases in individual property tax assessments to the rate of inflation.

Because we are a service provider, the majority of our costs are personnel related. Double digit increases in our health care costs will continue to place a burden on our overall city expenditures as we continue to rely on our tax base to maintain services.

Other factors that may/will affect our financial future include the final fate of state-shared revenues, the Michigan Department of Environmental Quality's decisions relative to our sanitary sewer system, the future of storm water management, and infrastructure investments.

# **City of Bloomfield Hills, Michigan**

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## **Management's Discussion and Analysis (Continued)**

### **Contacting the City's Financial Management**

This financial report is intended to provide citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, please contact the City administration at 248.644.1520, and as always you are welcome to visit our website at [www.bloomfieldhillsmi.net](http://www.bloomfieldhillsmi.net).

# City of Bloomfield Hills, Michigan

## Statement of Net Assets June 30, 2005

|  | Governmental<br>Activities  |
|--|-----------------------------|
| <b>Assets</b>                                    |                             |
| Cash and investments (Note 3)                    | \$ 4,671,987                |
| Receivables:                                     |                             |
| Customers  | 116,393                     |
| Delinquent personal property taxes               | 73,911                      |
| Other  | 88,052                      |
| Due from other governmental units                | 102,040                     |
| Prepaid expense and other assets                 | 55,753                      |
| Capital assets - Net (Note 4):                   |                             |
| Nondepreciable capital assets                    | 339,638                     |
| Depreciable capital assets - Net                 | <u>13,727,472</u>           |
| Total assets                                     | 19,175,246                  |
| <b>Liabilities</b>                               |                             |
| Accounts payable                                 | 213,079                     |
| Accrued and other liabilities                    | 91,696                      |
| Noncurrent liabilities (Note 6):                 |                             |
| Due within one year                              | 1,192,992                   |
| Due in more than one year                        | <u>4,978,533</u>            |
| Total liabilities                                | <u>6,476,300</u>            |
| <b>Net Assets</b>                                |                             |
| Invested in capital assets - Net of related debt | 8,306,357                   |
| Restricted:                                      |                             |
| PEG-related expenditures                         | 97,226                      |
| Construction code activity (Note 2)              | 122,621                     |
| Streets and highways                             | 580,120                     |
| Drug enforcement                                 | 1,565                       |
| Capital projects                                 | 704,498                     |
| Unrestricted                                     | <u>2,886,559</u>            |
| Total net assets                                 | <u><u>\$ 12,698,946</u></u> |

# City of Bloomfield Hills, Michigan

## Statement of Activities Year Ended June 30, 2005

|                                       | Program Revenues    |                      |                                    |                                  | Governmental   |
|---------------------------------------|---------------------|----------------------|------------------------------------|----------------------------------|--|
|                                       | Expenses            | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Activities   |
|                                       |                     |                      |                                    |                                  | Net (Expense) Revenue and Changes in Net Assets - Primary Government |
| <b>Functions/Programs</b>             |                     |                      |                                    |                                  |  |
| Primary government -                  |                     |                      |                                    |                                  |  |
| Governmental activities:              |                     |                      |                                    |                                  |  |
| General government                    | \$ 1,630,517        | \$ 462,728           | \$ -                               | \$ -                             | \$ (1,167,789)   |
| Public safety                         | 3,825,070           | 406,139              | 5,709                              | -                                | (3,413,222)  |
| Public works                          | 1,298,208           | -                    | 305,866                            | 569,275                          | (423,067)  |
| Interest on long-term debt            | 206,283             | -                    | -                                  | -                                | (206,283)  |
| Total primary government              | <u>\$ 6,960,078</u> | <u>\$ 868,867</u>    | <u>\$ 311,575</u>                  | <u>\$ 569,275</u>                | (5,210,361)  |
| General revenues:                     |                     |                      |                                    |                                  |  |
| Property taxes                        |                     |                      |                                    |                                  | 6,546,571  |
| State-shared revenues                 |                     |                      |                                    |                                  | 290,213  |
| Unrestricted investment earnings      |                     |                      |                                    |                                  | 115,437  |
| Franchise fees                        |                     |                      |                                    |                                  | 96,206   |
| Miscellaneous                         |                     |                      |                                    |                                  | 176,798  |
| Loss on sale of assets                |                     |                      |                                    |                                  | (6,749)  |
| Total general revenues                |                     |                      |                                    |                                  | <u>7,218,476</u>   |
| <b>Change in Net Assets</b>           |                     |                      |                                    |                                  | 2,008,115  |
| <b>Net Assets - Beginning of year</b> |                     |                      |                                    |                                  | <u>10,690,831</u>  |
| <b>Net Assets - End of year</b>       |                     |                      |                                    |                                  | <u><b>\$ 12,698,946</b></u>  |

# City of Bloomfield Hills, Michigan

## Governmental Funds Balance Sheet June 30, 2005

|   | General Fund        | General<br>Obligation<br>Debt Fund | Water and<br>Sewer<br>Construction<br>Fund | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|---------------------|------------------------------------|--|-----------------------------------|--------------------------------|
| <b>Assets</b>                             |                     |                                    |  |                                   |                                |
| Cash and investments (Note 3)             | \$ 3,022,781        | \$ 401,563                         | \$ 713,287                                 | \$ 534,356                        | \$ 4,671,987                   |
| Receivables                               | 278,356             | -                                  | -  | -                                 | 278,356                        |
| Due from General Fund (Note 5)            | -                   | -                                  | -  | 150,000                           | 150,000                        |
| Due from other governmental units         | 52,563              | -                                  | -  | 49,477                            | 102,040                        |
| Prepaid expenses and other assets         | 55,753              | -                                  | -  | -                                 | 55,753                         |
| Total assets                              | <b>\$ 3,409,453</b> | <b>\$ 401,563</b>                  | <b>\$ 713,287</b>                          | <b>\$ 733,833</b>                 | <b>\$ 5,258,136</b>            |
| <b>Liabilities and Fund Balances</b>      |                     |                                    |  |                                   |                                |
| <b>Liabilities</b>                        |                     |                                    |  |                                   |                                |
| Accounts payable                          | \$ 202,142          | \$ -                               | \$ 8,789                                   | \$ 2,148                          | \$ 213,079                     |
| Accrued and other liabilities             | 32,486              | -                                  | -  | -                                 | 32,486                         |
| Due to Budget Stabilization Fund (Note 5) | 150,000             | -                                  | -  | -                                 | 150,000                        |
| Deferred revenues                         | 73,911              | -                                  | -  | -                                 | 73,911                         |
| Total liabilities                         | 458,539             | -                                  | 8,789                                      | 2,148                             | 469,476                        |
| <b>Fund Balances</b>                      |                     |                                    |  |                                   |                                |
| Reserved for:                             |                     |                                    |  |                                   |                                |
| PEG-related expenditures                  | 97,226              | -                                  | -  | -                                 | 97,226                         |
| Construction Code activity (Note 2)       | 122,621             | -                                  | -  | -                                 | 122,621                        |
| Unreserved - Designated for:              |                     |                                    |  |                                   |                                |
| Compensated absences                      | 381,251             | -                                  | -  | -                                 | 381,251                        |
| Fire truck                                | 260,000             | -                                  | -  | -                                 | 260,000                        |
| Unreserved - Reported in:                 |                     |                                    |  |                                   |                                |
| General Fund                              | 2,089,816           | -                                  | -  | -                                 | 2,089,816                      |
| Special Revenue Funds                     | -                   | -                                  | -  | 731,685                           | 731,685                        |
| Debt Service Fund                         | -                   | 401,563                            | -  | -                                 | 401,563                        |
| Capital Projects Funds                    | -                   | -                                  | 704,498                                    | -                                 | 704,498                        |
| Total fund balances                       | 2,950,914           | 401,563                            | 704,498                                    | 731,685                           | 4,788,660                      |
| Total liabilities and fund balances       | <b>\$ 3,409,453</b> | <b>\$ 401,563</b>                  | <b>\$ 713,287</b>                          | <b>\$ 733,833</b>                 |                                |

Amounts reported for governmental activities in the statement of net assets are different because:

|  |                      |
|--|----------------------|
| Capital assets used in governmental activities are not financial resources and are not reported in the funds                                   | 14,067,110           |
| Delinquent personal property taxes are expected to be collected over several years, and are not available to pay for current year expenditures | 73,911               |
| Accrued interest payable is not due and payable in the current period and is not reported in the funds   | (59,210)             |
| Compensated absences are not due and payable in the current period and are not reported in the funds   | (381,251)            |
| Long-term liabilities are not due and payable in the current period and are not reported in the funds  | (5,790,274)          |
| Net assets of governmental activities  | <b>\$ 12,698,946</b> |

# City of Bloomfield Hills, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2005

|  | General Fund        | General<br>Obligation<br>Debt Fund | Water and<br>Sewer<br>Construction<br>Fund | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|---------------------|------------------------------------|--|-----------------------------------|--------------------------------|
| <b>Revenue</b>   |                     |                                    |  |                                   |                                |
| Property taxes   | \$ 6,546,571        | \$ -                               | \$ -                                       | \$ -                              | \$ 6,546,571                   |
| Licenses and permits                                   | 507,850             | -                                  | -  | -                                 | 507,850                        |
| Federal sources  | -                   | -                                  | -  | 250                               | 250                            |
| State sources  | 301,696             | -                                  | -  | 305,866                           | 607,562                        |
| Capital charges  | -                   | -                                  | 569,275                                    | -                                 | 569,275                        |
| Charges for services                                   | 76,281              | -                                  | -  | -                                 | 76,281                         |
| Fines and forfeitures - District Court                 | 351,605             | -                                  | -  | -                                 | 351,605                        |
| Tap fees   | -                   | -                                  | 87,500                                     | -                                 | 87,500                         |
| Interest   | 111,957             | 802                                | 1,424                                      | 1,254                             | 115,437                        |
| Other  | 333,066             | -                                  | -  | -                                 | 333,066                        |
| Total revenue  | 8,229,026           | 802                                | 658,199                                    | 307,370                           | 9,195,397                      |
| <b>Expenditures</b>                                    |                     |                                    |  |                                   |                                |
| General government                                     | 1,584,537           | -                                  | -  | -                                 | 1,584,537                      |
| Public safety  | 3,292,865           | -                                  | -  | 1,279                             | 3,294,144                      |
| Public works   | 303,129             | -                                  | 41,289                                     | 315,777                           | 660,195                        |
| 48th District Court                                    | 307,832             | -                                  | -  | -                                 | 307,832                        |
| Capital expenditures                                   | 364,727             | -                                  | -  | -                                 | 364,727                        |
| Debt service   | -                   | 1,208,142                          | -  | -                                 | 1,208,142                      |
| Total expenditures                                     | 5,853,090           | 1,208,142                          | 41,289                                     | 317,056                           | 7,419,577                      |
| <b>Excess of Revenue Over<br/>(Under) Expenditures</b> | 2,375,936           | (1,207,340)                        | 616,910                                    | (9,686)                           | 1,775,820                      |
| <b>Other Financing Sources (Uses)</b>                  |                     |                                    |  |                                   |                                |
| Transfers in (Note 5)                                  | -                   | 1,208,000                          | -  | 497,000                           | 1,705,000                      |
| Transfers out (Note 5)                                 | (1,670,000)         | -                                  | -  | (35,000)                          | (1,705,000)                    |
| Total other financing sources (uses)                   | (1,670,000)         | 1,208,000                          | -  | 462,000                           | -                              |
| <b>Net Change in Fund Balances</b>                     | 705,936             | 660                                | 616,910                                    | 452,314                           | 1,775,820                      |
| <b>Fund Balances - Beginning of year</b>               | 2,244,978           | 400,903                            | 87,588                                     | 279,371                           | 3,012,840                      |
| <b>Fund Balances - End of year</b>                     | <b>\$ 2,950,914</b> | <b>\$ 401,563</b>                  | <b>\$ 704,498</b>                          | <b>\$ 731,685</b>                 | <b>\$ 4,788,660</b>            |



# City of Bloomfield Hills, Michigan

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2005**

**Net Change in Fund Balances - Total Governmental Funds** **\$ 1,775,820**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are recorded as capital assets 132,028

Governmental funds allocate the cost of capital assets over their estimated useful lives as depreciation (955,508)

Proceeds from the sale of capital assets reported as revenue in the governmental funds; the statement of activities records a gain or loss, included in the general government expense (16,476)

Certain revenues reported in the statement of activities in the current year will not provide current financial resources in the governmental funds until future years 12,988

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities, where it reduces long-term debt 1,002,551

Interest expense is recorded when incurred in the statement of activities (692)

Decrease in accumulated employee sick and vacation pay is recorded when earned in the statement of activities 57,404

**Change in Net Assets of Governmental Activities** **\$ 2,008,115**

# City of Bloomfield Hills, Michigan

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## **Fiduciary Fund Statement of Assets and Liabilities June 30, 2005**

|  | <u>Trust and<br/>Agency Fund</u> |
|--|----------------------------------|
| <b>Assets</b>                                |                                  |
| Cash and cash equivalents                    | \$ 257,042                       |
| Receivables - Accrued interest               | <u>107,173</u>                   |
| <br>Total assets                             | <br><b><u>\$ 364,215</u></b>     |
| <br><b>Liabilities</b> - Refundable deposits | <br><b><u>\$ 364,215</u></b>     |

# City of Bloomfield Hills, Michigan

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## Notes to Financial Statements June 30, 2005

### **Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the City of Bloomfield Hills, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Bloomfield Hills, Michigan:

#### **Reporting Entity**

The City of Bloomfield Hills, Michigan is governed by an elected five-member commission. The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations.

**Blended Component Unit** - The City's Building Authority is governed by a board that is appointed by the Commission. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. There are currently no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

# City of Bloomfield Hills, Michigan

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## Notes to Financial Statements June 30, 2005

### Note 1 - Summary of Significant Accounting Policies (Continued)

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

**General Fund** - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**General Obligation Debt Fund** - The General Obligation Debt Fund is used to account for the annual payment of principal, interest, and expenses in connection with all long-term debt.

**Water and Sewer Construction Fund** - The Water and Sewer Construction Fund is used to account for money received from residents to be used for future construction of water and sewer infrastructure.

# City of Bloomfield Hills, Michigan

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## Notes to Financial Statements June 30, 2005

### Note 1 - Summary of Significant Accounting Policies (Continued)

Additionally, the City reports the following fund type:

**Agency Fund** - The Agency Fund accounts for assets held by the City in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. Private sector standards of accounting issued prior to December 1, 1989 are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its government-wide financial statements.

#### **Property Tax Revenue**

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The City's 2004 tax is levied and collectible on July 1, 2004 and is recognized as revenue in the year ended June 30, 2005, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2004 taxable valuation of the City totaled \$782 million, on which taxes levied consisted of 8.30 mills for operating purposes. This resulted in \$6.5 million for operating. These amounts are recognized in the General Fund financial statements as tax revenue.

#### **Assets, Liabilities, and Net Assets or Equity**

**Cash and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

# City of Bloomfield Hills, Michigan

## Notes to Financial Statements June 30, 2005

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

|                                    |               |
|------------------------------------|---------------|
| Land improvements                  | 20 years      |
| Building and improvements          | 50 years      |
| Machinery, equipment, and vehicles | 5 to 20 years |
| Drain usage rights                 | 50 years      |
| Infrastructure                     | 20 years      |

**Compensated Absences (Vacation and Sick Leave)** - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is a liability for half of the unpaid accumulated sick leave since the City has a policy to pay half the amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

**Long-term Obligations** - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

# City of Bloomfield Hills, Michigan

## Notes to Financial Statements June 30, 2005

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

### Note 2 - Stewardship, Compliance, and Accountability

**Construction Code Fees** - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

|                                      |    |               |                       |
|--------------------------------------|----|---------------|-----------------------|
| Cumulative surplus - July 1, 2004    |    | \$            | 8,529                 |
| Current year building permit revenue |    |               | 402,220               |
| Related expenses:                    |    |               |                       |
| Direct costs                         | \$ | 224,138       |                       |
| Estimated indirect costs             |    | <u>63,990</u> | <u>288,128</u>        |
| Current year surplus                 |    |               | <u>114,092</u>        |
| Cumulative surplus - June 30, 2005   |    | \$            | <u><u>122,621</u></u> |

# **City of Bloomfield Hills, Michigan**

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## **Notes to Financial Statements June 30, 2005**

### **Note 3 - Deposits and Investments**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated six banks for the deposit of its funds. Each financial intermediary, broker, or dealer that holds the City's funds must be provided with a copy of the investment policy and comply with the policy. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in all of the above securities. The City's deposits and investments are currently in compliance with its investment policy and statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

#### **Custodial Credit Risk of Bank Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$1,588,089 of bank deposits (certificates of deposit, checking, and savings accounts), of which \$534,430 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.



# City of Bloomfield Hills, Michigan

## Notes to Financial Statements June 30, 2005

### Note 3 - Deposits and Investments (Continued)

#### Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than U.S. government) are as follows:

| Investment   | Fair Value   | Rating | Rating Organization |
|--|--------------|--------|---------------------|
| Primary government - Bank investment pool - Comerica | \$ 2,913,022 | PI     | Moody's             |
| Fiduciary funds - Bank investment pool - Comerica    | 257,108      | PI     | Moody's             |

### Note 4 - Capital Assets

Capital asset activity of the City's governmental activities was as follows:

| Governmental Activities                        | Balance<br>July 1, 2004 | Additions    | Disposals and<br>Adjustments | Balance<br>June 30, 2005 |
|--|-------------------------|--------------|------------------------------|--------------------------|
| Capital assets not being depreciated -<br>Land | \$ 339,638              | \$ -         | \$ -                         | \$ 339,638               |
| Capital assets being depreciated:              |                         |              |                              |                          |
| Land improvements                              | 240,500                 | -            | -                            | 240,500                  |
| Buildings and improvements                     | 6,656,860               | 1,051        | -                            | 6,657,911                |
| Machinery, equipment, and vehicles             | 2,810,716               | 105,464      | (69,190)                     | 2,846,990                |
| Drain usage rights                             | 3,209,940               | -            | -                            | 3,209,940                |
| Infrastructure                                 | 12,317,127              | 25,513       | -                            | 12,342,640               |
| Subtotal                                       | 25,235,143              | 132,028      | (69,190)                     | 25,297,981               |
| Accumulated depreciation:                      |                         |              |                              |                          |
| Land improvements                              | 78,163                  | 12,025       | -                            | 90,188                   |
| Buildings and improvements                     | 780,397                 | 132,350      | -                            | 912,747                  |
| Machinery, equipment, and vehicles             | 1,975,478               | 188,827      | (52,714)                     | 2,111,591                |
| Drain usage rights                             | 885,820                 | 78,240       | -                            | 964,060                  |
| Infrastructure                                 | 6,947,857               | 544,066      | -                            | 7,491,923                |
| Subtotal                                       | 10,667,715              | 955,508      | (52,714)                     | 11,570,509               |
| Net capital assets being depreciated           | 14,567,428              | (823,480)    | (16,476)                     | 13,727,472               |
| Net capital assets                             | \$ 14,907,066           | \$ (823,480) | \$ (16,476)                  | \$ 14,067,110            |

# City of Bloomfield Hills, Michigan

## Notes to Financial Statements June 30, 2005

### Note 4 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

|                               |                   |
|-------------------------------|-------------------|
| Governmental activities:      |                   |
| General government            | \$ 123,994        |
| Public safety                 | 214,288           |
| Public works                  | <u>617,226</u>    |
| Total governmental activities | <u>\$ 955,508</u> |

**Construction Commitments** - The City has one construction project that has been approved at year end. The project relates to water and sewer system maintenance in which engineering work has begun, but the construction started in fiscal year 2006. At year end, the City's commitments with contractors are as follows:

|                                     | Spent to Date | Remaining<br>Commitment |
|-------------------------------------|---------------|-------------------------|
| Sanitary sewer maintenance services | \$ -          | \$ 1,475,000            |

### Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

| Receivable Fund           | Payable Fund | Amount            |
|---------------------------|--------------|-------------------|
| Budget Stabilization Fund | General Fund | <u>\$ 150,000</u> |

This balance results from the time lag between the dates payments between funds are made.

# City of Bloomfield Hills, Michigan

## Notes to Financial Statements June 30, 2005

### Note 5 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund transfers reported in the fund financial statements are comprised of the following:

| <u>Fund Providing Resources</u>                     | <u>Fund Receiving Resources</u>                     | <u>Amount</u>       |
|---|---|---------------------|
| General Fund  | General Obligation Debt Fund                        | \$ 1,208,000        |
|   | Nonmajor governmental funds:                        |                     |
|   | Major Streets Fund                                  | 87,000              |
|   | Local Streets Fund                                  | <u>375,000</u>      |
|   | Total General Fund                                  | 1,670,000           |
| Nonmajor governmental funds -<br>Major Streets Fund | Nonmajor governmental funds -<br>Local Streets Fund | <u>35,000</u>       |
|   | Total   | <u>\$ 1,705,000</u> |

The transfers from the General Fund to the General Obligation Debt Fund represent the use of unrestricted resources to service debt payments, in accordance with budgetary authorizations; the transfer from the General Fund to the Major Streets Fund and the Local Streets Fund represents the use of unrestricted resources to help finance future road projects; and the transfer from the Major Streets Fund to the Local Streets Fund represents the sharing of gas and weight tax revenues in accordance with Act 51.

# City of Bloomfield Hills, Michigan

## Notes to Financial Statements June 30, 2005

### Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government.

Long-term obligation activity can be summarized as follows:

|  | Interest<br>Rate<br>Ranges | Beginning<br>Balance | Reductions* | Ending<br>Balance | Due Within<br>One Year |
|--|----------------------------|----------------------|-------------|-------------------|------------------------|
| <b>Governmental Activities</b>   |                            |                      |             |                   |                        |
| General obligation bonds:  |                            |                      |             |                   |                        |
| Evergreen-Farmington Bonds:  |                            |                      |             |                   |                        |
| Evergreen-Farmington Bonds   |                            |                      |             |                   |                        |
| Amount of issue - \$12,500   | 3.70% -                    |                      |             |                   |                        |
| Maturing through 2010  | 4.85%                      | \$ 5,586             | \$ (673)    | \$ 4,913          | \$ 887                 |
| Evergreen-Farmington Amy Relief Sewers   |                            |                      |             |                   |                        |
| Amount of issue - \$785,104  | 4.50% -                    |                      |             |                   |                        |
| Maturing through 2009  | 4.60%                      | 312,898              | (61,892)    | 251,006           | 72,207                 |
| Evergreen-Farmington Permanent Meter<br>& Interceptor Rehabilitation                 |                            |                      |             |                   |                        |
| Amount of issue - \$785,104  |                            |                      |             |                   |                        |
| Maturing through 2009  | 2.31%                      | 46,151               | (7,158)     | 38,993            | 6,927                  |
| Oakland County CSO Drain Bonds:  |                            |                      |             |                   |                        |
| Bloomfield Village CSO Drainage Bonds,<br>Series 1994 A                              |                            |                      |             |                   |                        |
| Amount of issue - \$161,233  |                            |                      |             |                   |                        |
| Maturing through 2017  | 2.00%                      | 108,260              | (7,457)     | 100,803           | 7,457                  |
| Bloomfield Village CSO Drainage District<br>Refunding Bonds, Series 2001A            |                            |                      |             |                   |                        |
| Amount of issue - \$141,432  |                            |                      |             |                   |                        |
| Maturing through 2017  | 5.14%                      | 115,975              | (7,972)     | 108,003           | 7,972                  |
| Bloomfield Village CSO Drainage District<br>Refund Bonds, Series 2001B               |                            |                      |             |                   |                        |
| Amount of issue - \$468,013  |                            |                      |             |                   |                        |
| Maturing through 2017  | 5.14%                      | 387,783              | (18,515)    | 369,268           | 23,656                 |
| City of Bloomfield Hills CSO Drainage<br>District Drain Refunding Bonds, Series 2003 |                            |                      |             |                   |                        |
| Amount of issue - \$1,125,000  | 1.25% -                    |                      |             |                   |                        |
| Maturing through 2017  | 3.38%                      | 1,095,000            | (65,000)    | 1,030,000         | 65,000                 |

# City of Bloomfield Hills, Michigan

## Notes to Financial Statements June 30, 2005

### Note 6 - Long-term Debt (Continued)

|   | Interest<br>Rate<br>Ranges | Beginning<br>Balance | Reductions*           | Ending<br>Balance   | Due Within<br>One Year |
|---|----------------------------|----------------------|-----------------------|---------------------|------------------------|
| <b>Governmental Activities (Continued)</b>                        |                            |                      |                       |                     |                        |
| State Revolving Fund Loan   |                            |                      |                       |                     |                        |
| Bloomfield Hills - Michigan State Revolving<br>Loan Fund          |                            |                      |                       |                     |                        |
| Amount of issue - \$250,000                                       |                            |                      |                       |                     |                        |
| Maturing through 2015   | 2.25%                      | \$ 135,000           | \$ (15,000)           | \$ 120,000          | \$ 10,000              |
| Building Authority Bonds  |                            |                      |                       |                     |                        |
| 1998 Building Authority Bonds                                     |                            |                      |                       |                     |                        |
| Amount of issue - \$7,100,000                                     |                            |                      |                       |                     |                        |
| Maturing through 2009   | 3.75%                      | 4,500,000            | (800,000)             | 3,700,000           | 800,000                |
| Installment Purchase Obligation                                   |                            |                      |                       |                     |                        |
| 2003 Installment Purchase Obligation -<br>Dump truck              |                            |                      |                       |                     |                        |
| Amount of issue - \$94,418  |                            |                      |                       |                     |                        |
| Maturing through 2007   |                            | 56,651               | (18,884)              | 37,767              | 18,884                 |
| Total bonds and notes   |                            | 6,763,304            | (1,002,551)           | 5,760,753           | 1,012,990              |
| Other long-term obligations:                                      |                            |                      |                       |                     |                        |
| Employee compensated absences                                     |                            | 438,655              | (57,404)              | 381,251             | 180,002                |
| Estimated personal property tax multiplier liability<br>(Note 10) |                            | 29,521               | -                     | 29,521              | -                      |
| Total governmental activities                                     |                            | <u>\$ 7,231,480</u>  | <u>\$ (1,059,955)</u> | <u>\$ 6,171,525</u> | <u>\$ 1,192,992</u>    |

\* No additions in current year

Annual debt service requirements to maturity for the above bond and note obligations are as follows:

|           | Governmental Activities |                   |                     |
|-----------|-------------------------|-------------------|---------------------|
|           | Principal               | Interest          | Total               |
| 2006      | \$ 1,012,990            | \$ 187,849        | \$ 1,200,839        |
| 2007      | 1,116,597               | 149,256           | 1,265,853           |
| 2008      | 1,116,367               | 108,517           | 1,224,884           |
| 2009      | 1,293,955               | 63,631            | 1,357,586           |
| 2010      | 155,290                 | 36,715            | 192,005             |
| 2011-2015 | 819,495                 | 112,334           | 931,829             |
| 2016-2017 | 246,059                 | 7,977             | 254,036             |
| Total     | <u>\$ 5,760,753</u>     | <u>\$ 666,279</u> | <u>\$ 6,427,032</u> |

### **Note 7 - Risk Management**

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefits claims and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation, and participates in the Michigan Municipal Risk Management Authority (MMRMA) state pool for claims related to general liability. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority's State Pool program operates as a common risk-sharing management program for local units of government in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. A portion of the excess insurance coverage is underwritten by the Authority itself.

### **Note 8 - Defined Benefit Pension Plan**

**Plan Description** - The City participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City, except for four employees. The MERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The MERS issues a publicly available financial report that includes financial statements and required supplementary information for the MERS. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, MI 48917.

**Funding Policy** - The obligation to contribute to and maintain the MERS for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 1.7 percent to 5 percent of gross wages.

# City of Bloomfield Hills, Michigan

## Notes to Financial Statements June 30, 2005

### Note 8 - Defined Benefit Pension Plan (Continued)

**Annual Pension Cost** - For the year ended June 30, 2005, the City's annual pension cost of \$589,368 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8.0 investment rate of return, (b) projected salary increases of 4.5 percent to 8.66 percent per year, and (c) the assumption that benefits will increase 2.5 percent per year annually after retirement. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis for the general administration division; and on an open basis for the public works, public safety dispatch, public safety officers, public safety sergeants, and executive divisions. The remaining amortization period is between 10 and 30 years.

|                               | Fiscal Year Ended June 30 |            |            |
|-------------------------------|---------------------------|------------|------------|
|                               | 2003                      | 2004       | 2005       |
| Annual pension costs (APC)    | \$ 449,127                | \$ 661,588 | \$ 589,368 |
| Percentage of APC contributed | 100%                      | 100%       | 100%       |
| Net pension obligation        | \$ -                      | \$ -       | \$ -       |

The schedule of funding progress is as follows:

| Actuarial<br>Valuation Date | Actuarial Value<br>of Assets<br>(a) | Actuarial<br>Liability (AAL)<br>(b) | Unfunded AAL<br>(UAAL) (b-a) | Funded Ratio<br>(Percent) (a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage of<br>Covered<br>Payroll |
|-----------------------------|-------------------------------------|-------------------------------------|------------------------------|---------------------------------|---------------------------|--|
| 12/31/02                    | \$ 12,774,519                       | \$ 18,209,422                       | \$ (5,434,903)               | 70.15                           | \$ 2,057,400              | 264.16   |
| 12/31/03                    | 13,409,865                          | 20,012,444                          | (6,602,579)                  | 67.01                           | 2,076,283                 | 318.00   |
| 12/31/04                    | 14,202,720                          | 21,155,294                          | (6,952,574)                  | 67.14                           | 1,966,379                 | 353.57   |

### **Note 9 - Other Postemployment Benefits**

The City provides health care to all full-time employees upon retirement, in accordance with labor contracts. Currently, 33 retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured health care plan. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due; this totaled approximately \$371,000. These benefits are paid annually from the General Fund.

**Upcoming Reporting Change** - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

### **Note 10 - Personal Property Tax Multipliers**

In November 1999, the State Tax Commission approved revised personal property tax tables for utilities. The revised tables affected taxes collected from 1997 to the present due to local units of government continuing to use the personal property tax tables in effect prior to 1999. The issue was the subject of a lawsuit brought by several units of government against the State Tax Commission challenging the constitutionality of the new utility personal property tax tables. In April 2002, the revised tables were upheld by the court.

During 2003, the tax tables were again upheld on appeal. The amounts paid to the City in excess of the approved amounts using the new tables would potentially need to be refunded to the utility companies. This could result in refunds, including interest, of approximately \$29,000 in the governmental funds. Appeals are still being undertaken by taxing authorities. Therefore, the potential refund related to governmental funds has been recorded as a long-term liability on the government-wide statement of net assets at June 30, 2005.



## **Required Supplemental Information**

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# City of Bloomfield Hills, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2005

|   | Original<br>Budget | Amended<br>Budget | Actual       | Variance with<br>Amended Budget<br>Favorable<br>(Unfavorable) |
|---|--------------------|-------------------|--------------|---|
| <b>Revenue</b>                                |                    |                   |              |   |
| <b>Property Taxes</b>                         |                    |                   |              |   |
| Real and personal property taxes              | \$ 6,480,000       | \$ 6,480,000      | \$ 6,473,540 | \$ (6,460)  |
| Delinquent personal property taxes            | 7,000              | 7,000             | 7,935        | 935   |
| Tax penalties                                 | 40,000             | 40,000            | 65,096       | 25,096  |
| Total property taxes                          | 6,527,000          | 6,527,000         | 6,546,571    | 19,571  |
| <b>Licenses and Permits</b>                   |                    |                   |              |   |
| Building permits                              | 120,000            | 120,000           | 283,255      | 163,255   |
| Electrical, heating, and plumbing permits     | 55,000             | 55,000            | 113,978      | 58,978  |
| Cable television franchise fee                | 50,000             | 50,000            | 61,222       | 11,222  |
| Public education and government fees          | 20,000             | 20,000            | 34,984       | 14,984  |
| Other   | 10,850             | 10,850            | 14,411       | 3,561   |
| Total licenses and permits                    | 255,850            | 255,850           | 507,850      | 252,000   |
| <b>State Sources</b>                          |                    |                   |              |   |
| State-shared revenue                          | 285,000            | 285,000           | 290,213      | 5,213   |
| Other   | 7,500              | 7,500             | 11,483       | 3,983   |
| Total state sources                           | 292,500            | 292,500           | 301,696      | 9,196   |
| <b>Charges for Services</b>                   | 62,200             | 62,200            | 76,281       | 14,081  |
| <b>Fines and Forfeitures - District Court</b> | 453,600            | 453,600           | 351,605      | (101,995)   |
| <b>Interest</b>                               | 75,000             | 75,000            | 111,957      | 36,957  |
| <b>Other Revenue</b>                          |                    |                   |              |   |
| Sale of assets                                | 10,000             | 10,000            | 9,727        | (273)   |
| Tri-party revenue                             | -                  | -                 | 210,728      | 210,728   |
| Other   | 57,500             | 57,500            | 112,611      | 55,111  |
| Total other revenue                           | 67,500             | 67,500            | 333,066      | 265,566   |
| <b>Operating Transfers In</b>                 | 195,000            | 195,000           | 183,416      | (11,584)  |
| Total revenue                                 | 7,928,650          | 7,928,650         | 8,412,442    | 483,792   |

# City of Bloomfield Hills, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2005

|   | Original<br>Budget         | Amended<br>Budget          | Actual                     | Variance with<br>Amended Budget<br>Favorable<br>(Unfavorable) |
|---|----------------------------|----------------------------|----------------------------|---|
| <b><u>Expenditures</u></b>              |                            |                            |                            |   |
| <b>General Government</b>               |                            |                            |                            |   |
| City Commission                         | \$ 1,000                   | \$ 4,500                   | \$ 4,733                   | \$ (233)  |
| City manager                            | 90,700                     | 90,700                     | 58,444                     | 32,256  |
| Assessor                                | 57,500                     | 57,500                     | 46,295                     | 11,205  |
| Attorney                                | 120,000                    | 155,000                    | 146,626                    | 8,374   |
| Clerk                                   | 34,600                     | 34,600                     | 23,078                     | 11,522  |
| Treasurer                               | 75,175                     | 75,175                     | 75,029                     | 146   |
| General administration                  | 796,542                    | 796,542                    | 724,558                    | 71,984  |
| Building and grounds                    | 160,850                    | 160,850                    | 174,467                    | (13,617)  |
| Building and planning                   | 127,550                    | 175,050                    | 182,465                    | (7,415)   |
| Engineering                             | 224,600                    | 269,600                    | 129,542                    | 140,058   |
| Library                                 | 50,000                     | 50,000                     | 19,300                     | 30,700  |
| Total general government                | 1,738,517                  | 1,869,517                  | 1,584,537                  | 284,980   |
| <b>Public Safety</b>                    | 3,289,906                  | 3,393,957                  | 3,292,865                  | 101,092   |
| <b>Public Works</b>                     | 486,119                    | 486,119                    | 486,545                    | (426)   |
| <b>48th District Court</b>              | 440,000                    | 440,000                    | 307,832                    | 132,168   |
| <b>Capital Outlay</b>                   | 220,400                    | 226,349                    | 364,727                    | (138,378)   |
| <b>Operating Transfers Out</b>          | 1,670,000                  | 1,670,000                  | 1,670,000                  | -   |
| Total expenditures                      | 7,844,942                  | 8,085,942                  | 7,706,506                  | 379,436   |
| <b>Excess of Revenue Over (Under)</b>   |                            |                            |                            |   |
| <b>Expenditures</b>                     | 83,708                     | (157,292)                  | 705,936                    | 863,228   |
| <b>Fund Balance - Beginning of year</b> | 2,244,978                  | 2,244,978                  | 2,244,978                  | -   |
| <b>Fund Balance - End of year</b>       | <u><u>\$ 2,328,686</u></u> | <u><u>\$ 2,087,686</u></u> | <u><u>\$ 2,950,914</u></u> | <u><u>\$ 863,228</u></u>                                      |

# City of Bloomfield Hills, Michigan

## Notes to Required Supplemental Information June 30, 2005

### Note 1 - Reconciliation of Budgeted Amounts to Basic Financial Statements

The budgetary comparison schedule for the General Fund is presented on the same basis of accounting used in preparing the adopted budget. Following is a reconciliation of the budgetary comparison schedule to the governmental funds (statement of revenues, expenditures, and changes in fund balances):

|  | General Fund        |                     |
|--|---------------------|---------------------|
|  | Total Revenue       | Total Expenditures  |
| Amounts per operating statement  | \$ 8,229,026        | \$ 5,853,090        |
| Reimbursements of expenditures recorded<br>as operating transfer on budget statement | 183,416             | 183,416             |
| Operating transfers budgeted as revenue<br>and expenditures on budget statement      | -                   | 1,670,000           |
| Amounts per budget statement   | <u>\$ 8,412,442</u> | <u>\$ 7,706,506</u> |

### Note 2 - Budgetary Information

**Budgetary Information** - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds except that operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)" and reimbursement of expenditure has been recorded as operating transfer in rather than a decrease to related expenditure. All annual appropriations lapse at fiscal year end; encumbrances are not included as expenditures. During the year, the budget was amended in a legally permissible manner. The City did not budget for the Budget Stabilization and Drug Enforcement Funds.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

# City of Bloomfield Hills, Michigan

## Notes to Required Supplemental Information June 30, 2005

### Note 2 - Budgetary Information (Continued)

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. On or before April 30, the Finance Director/Treasurer and the City Manager prepare a proposed operating budget for the fiscal year commencing July 1 and submit it to the City Commission. The budget must be adopted through a passage of a budget resolution no later than May 31.
2. Public hearings are conducted to obtain citizen comments.
3. The legislative budget is adopted by department and fund on a departmental basis. Line item detail is provided as a general guideline. Throughout the year, the Commission receives the requests to amend the activity budget. All amendments must be approved by a vote of the City Commission. Changes in line items within an activity may be made and approved by the Finance Director/Treasurer.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the City of Bloomfield Hills, Michigan incurred expenditures that were significantly in excess of the amounts budgeted, as follows:

|                               | <u>Budget</u> | <u>Actual</u> |
|-------------------------------|---------------|---------------|
| General Fund - Capital outlay | \$ 226,349    | \$ 364,727    |

Expenditures exceeded budget for capital outlay due to unanticipated expenditures related to a tri-party project with Oakland County, in which reimbursement was available to the City. The City was not aware of this when the budget was adopted. The expenditures in excess of the amount budgeted were funded by revenue from the unbudgeted reimbursement, which was \$210,728.

## **Other Supplemental Information**

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# City of Bloomfield Hills, Michigan

## Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2005

|  | Special Revenue Funds |                   |                         |                     | Total<br>Nonmajor<br>Governmental<br>Funds |
|--|-----------------------|-------------------|-------------------------|---------------------|--|
|  | Major Streets         | Local Streets     | Budget<br>Stabilization | Drug<br>Enforcement |  |
| <b>Assets</b>                          |                       |                   |                         |                     |  |
| Cash and investments                   | \$ 191,875            | \$ 340,875        | \$ -                    | \$ 1,606            | \$ 534,356                                 |
| Due from General Fund                  | -                     | -                 | 150,000                 | -                   | 150,000                                    |
| Due from other governmental units      | 33,618                | 15,859            | -                       | -                   | 49,477                                     |
| Total assets                           | <u>\$ 225,493</u>     | <u>\$ 356,734</u> | <u>\$ 150,000</u>       | <u>\$ 1,606</u>     | <u>\$ 733,833</u>                          |
| <b>Liabilities and Fund Balances</b>   |                       |                   |                         |                     |  |
| <b>Liabilities</b> - Accounts payable  | \$ 1,441              | \$ 666            | \$ -                    | \$ 41               | \$ 2,148                                   |
| <b>Fund Balances</b> - Unreserved      | 224,052               | 356,068           | 150,000                 | 1,565               | 731,685                                    |
| Total liabilities and<br>fund balances | <u>\$ 225,493</u>     | <u>\$ 356,734</u> | <u>\$ 150,000</u>       | <u>\$ 1,606</u>     | <u>\$ 733,833</u>                          |

# City of Bloomfield Hills, Michigan

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended June 30, 2005

|  | Special Revenue Funds |                   |                         |                     | Total Nonmajor<br>Governmental<br>Funds |
|--|-----------------------|-------------------|-------------------------|---------------------|---|
|  | Major Streets         | Local Streets     | Budget<br>Stabilization | Drug<br>Enforcement |   |
| <b>Revenue</b>   |                       |                   |                         |                     |   |
| Federal sources  | \$ -                  | \$ -              | \$ -                    | \$ 250              | \$ 250                                  |
| State sources  | 207,841               | 98,025            | -                       | -                   | 305,866                                 |
| Interest income  | 545                   | 709               | -                       | -                   | 1,254                                   |
| Total revenue  | 208,386               | 98,734            | -                       | 250                 | 307,370                                 |
| <b>Expenditures</b>                                    |                       |                   |                         |                     |   |
| Public safety  | -                     | -                 | -                       | 1,279               | 1,279                                   |
| Public works   | 134,329               | 181,448           | -                       | -                   | 315,777                                 |
| Total expenditures                                     | 134,329               | 181,448           | -                       | 1,279               | 317,056                                 |
| <b>Excess of Revenue Over (Under)<br/>Expenditures</b> | 74,057                | (82,714)          | -                       | (1,029)             | (9,686)                                 |
| <b>Other Financing Sources (Uses)</b>                  |                       |                   |                         |                     |   |
| Transfers in   | 87,000                | 410,000           | -                       | -                   | 497,000                                 |
| Transfers out  | (35,000)              | -                 | -                       | -                   | (35,000)                                |
| Total other financing<br>sources (uses)                | 52,000                | 410,000           | -                       | -                   | 462,000                                 |
| <b>Net Change in Fund Balances</b>                     | 126,057               | 327,286           | -                       | (1,029)             | 452,314                                 |
| <b>Fund Balances - Beginning of year</b>               | 97,995                | 28,782            | 150,000                 | 2,594               | 279,371                                 |
| <b>Fund Balances - End of year</b>                     | <b>\$ 224,052</b>     | <b>\$ 356,068</b> | <b>\$ 150,000</b>       | <b>\$ 1,565</b>     | <b>\$ 731,685</b>                       |





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September 16, 2005

Honorable Mayor and Members  
of the City Commission  
City of Bloomfield Hills  
45 East Long Lake Road  
Bloomfield Hills, MI 48304

Dear Mayor and Commission Members:

We have recently completed the audit of the basic financial statements of the City of Bloomfield Hills for the year ended June 30, 2005. In addition to our audit report, we offer the following comments and recommendations for your consideration:

### **Cash Reconciliations**

During the 2003 audit, we noted that the book balance per the general ledger did not equal the book balance on the bank reconciliations. This problem has continued over the past two years and still continues to be a problem to date. In addition, the bank reconciliations were not reviewed by a second person. The City's treasurer has been working with their software vendor to fix this problem. The City should continue to identify and support these differences every month. We recommend that the City continue to work with the vendor to reconcile any differences in the bank reconciliations each month in order to maintain adequate internal controls over the accuracy of the general ledger. We also recommend that all bank reconciliations be reviewed by a second person.

### **ACH Transactions**

During the audit, we read in the City's ACH policy a requirement that wire transfers are to be reviewed by an individual other than the person making the transfer. In our testing, we noted that this was not being done. In order to avoid a misunderstanding, we want to note that we did not find any discrepancies in the wire transfers and they were all made properly. We did, however, note that no one was reviewing the transfers. We recommend that every ACH transfer receive written approval from a supervisor in order to comply with the City's policy and to ensure the safeguarding of the City's assets.



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## **Vacation and Sick Time**

During our audit testing, we noted that each of the departments of the City are tracking their own accumulated compensation balances (vacation and sick) but they are not tracked on a consolidated spreadsheet or other centralized basis for all employees. The City may want to utilize the current software's ability to track these balances through the payroll module. This would allow the City to accumulate all employees' vacation and sick time in one location and allow the City to designate one individual to verify all required procedures are being followed.

It was also noted that the request forms for vacation and sick time were not always approved by a supervisor. In order to ensure accurate reporting of employees' time and sick and vacation banked hours, all vacation and sick time should be properly approved.

## **ACT 51 Revenue**

While conducting the audit, a spot check was done on the ACT 51 report filed in the prior year. It appears that the section regarding non-motorized expenditures has reflected zero expenditures in this category for the past nine years. The City should review the qualifications of non-motorized expenditures (i.e., shoulder paving, bicycle parking or paths, paving gravel roads) in order to ensure that they are being properly reflected in the ACT 51 report.

## **Legislative and Other Matters**

### **State-shared Revenue**

State-shared revenue accounts for approximately 11 percent of the City's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue-sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue-sharing line item in the State's budget, revenue-sharing payments for the last several years have been lower than anticipated.

Although sales tax revenue would support an increase to total state-shared revenue payments, the State's budget situation remains troublesome at best. As you are probably aware, the governor's budget for the State's 2004/2005 fiscal year contained a provision to not pay counties statutory revenue sharing. Instead, beginning in 2005, the counties will change their property tax levy date for their operating millage from December to July. A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple-year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out. A key part to this plan allows the State to hold revenue-sharing payments to cities, villages, and townships for the State's 2004/2005 fiscal year at the prior year levels. In February 2005, the governor's executive order indicated that no further cuts to revenue sharing would take place for the State's fiscal year 2004/2005.

### State-shared Revenue (Continued)

It is generally acknowledged that the State's budget woes will continue for several more years. The governor recently announced that another \$773 million shortfall exists for the State's 2005/2006 fiscal year budget. Also, during February 2005, the governor announced that revenue sharing is budgeted at approximately \$1.1 billion, which is basically the fiscal year 2004/2005 funding level. However, as part of recent budget negotiations on the State's 2005/2006 budget, another reduction to state-shared revenue has been proposed by the Senate. Negotiations between both branches of the Michigan Legislature and the governor are likely to continue through the summer and not conclude until the fall, with unknown results. Accordingly, we continue to urge the City to be very conservative in its estimation of state-shared revenue as this line item in the State's budget remains vulnerable and the threat to the elimination of statutory revenue sharing remains.

The following table details actual state-shared revenue for the City since 2001 in comparison to state-shared revenue if the revenue payments would have increased at the rate of inflation. In addition, the table details the cumulative revenue lost by the City as a result of not receiving state-shared revenue payments consistent with annual increases in inflation since 2001.

| City Fiscal Year<br>Ending June 30 | Actual Revenue<br>Sharing | Revenue Sharing if City<br>Received Inflationary<br>Increases | Cumulative Lost<br>Revenue-sharing<br>Payments |
|------------------------------------|---------------------------|---|--|
| 2001                               | \$369,155                 | \$369,155   | -  |
| 2002                               | \$338,290                 | \$380,968   | \$42,678                                       |
| 2003                               | \$326,850                 | \$386,683   | \$102,511                                      |
| 2004                               | \$293,757                 | \$395,577   | \$204,311                                      |
| 2005                               | \$290,555                 | \$404,675   | \$318,431                                      |

We will continue to update the City as developments occur.

### Internal Control and Fraud Prevention

Designing and maintaining a sound system of internal controls over assets, as well as fraud prevention and detection, are on the forefront in today's accounting environment. As part of our audit of the City's 2005 financial statements, we performed additional procedures as required by Statement of Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit* (SAS 99). While SAS 99 does not change the focus of the financial statement audit to a "fraud audit," the new standard incorporates a change in mindset for auditors to search for and identify significant fraud risk factors. SAS 99 requires auditors to perform specific procedures to search for significant fraud risk factors, including inquiries with members of the City Commission, administration, and other employees throughout the City; a retrospective review of accounting estimates; a detailed review of all journal entries; and other related procedures.

Honorable Mayor and Members  
of the City Commission  
City of Bloomfield Hills

4

September 16, 2005

The City Commission should be pleased to note that the additional inquiries and testing that were performed did not reveal any material internal control issues to be addressed by the City.


We would like to thank the City Commission for the opportunity to serve as auditors for the City. We would also like to express our appreciation for the courtesy and cooperation extended to us by the administration during the audit. If you would like to discuss any of these matters, or would like assistance in their implementation, please contact us.

Very truly yours,

**Plante & Moran, PLLC**

A handwritten signature in black ink, reading "Leslie J. Pulver". The signature is written in a cursive style with a large, stylized "L" and "P".

Leslie J. Pulver

A handwritten signature in black ink, reading "Pamela L. Jadach". The signature is written in a cursive style with a large, stylized "P" and "J".

Pamela L. Jadach